

**Hon. Jovita Carranza
Deputy Administrator
US Small Business Administration**

**TESTIMONY BEFORE
HOUSE COMMITTEE ON SMALL BUSINESS
SUBCOMMITTEE ON CONTRACTING AND TECHNOLOGY
HEARING REGARDING
MIDWEST FLOODS**

SEPTEMBER 24, 2008

Good morning Chairman Braley, Ranking Member Davis, and distinguished members of the Committee. Thank you for inviting me to discuss the Small Business Administration's work to help the victims of the Midwest floods rebuild their homes, businesses, and communities. The SBA is best known for our work with entrepreneurs and the small business community, but when disasters strike, we provide critical pieces of the overall, national recovery effort. This mission provides us with an opportunity to help those in desperate need, and from my personal experience with these events, I can tell you that it is one of the most important and consequential things that our agency does.

In the aftermath of the flooding and severe weather that began in the late spring and continued through the early summer, I personally visited the disaster area three times in my capacity as then-Acting Administrator of SBA. I saw the devastation first hand, but I also had the chance to see how SBA and, indeed, the entire federal government had learned from the painful lessons of the 2005 hurricane season. These lessons have led to reforms that have dramatically improved our performance.

Of course, this is little comfort to those whose homes and businesses were destroyed or to those communities that were devastated. The speed of our response and the skills and resources we deployed can not undo the damage brought by nature, and like everything government does, there is always room for improvement. But, in assessing the response to the Midwest Floods, I think that it would be helpful for the Committee to consider the contrasts between the situation in 2005 and the response in 2008. Because of the Administration's post-Katrina reforms and the bipartisan support of these efforts from Congress, SBA's disaster recovery performance has dramatically improved.

To put this into perspective, the goal for processing a home loan before Katrina was 12 days. As SBA grappled with Katrina applications, the actual time needed stretched to 90 days.

Today, the goal for processing a disaster home loan is 10 days, but in responding to the floods, the actual time has been 4.7 days.

Before Katrina, the goal for processing a business loan was 17 days, but in the hurricane's aftermath the actual time needed was 70 days.

Today, the goal for processing a disaster business loan is 16 days but the actual time is 9.1 days.

These more demanding goals and the fact that SBA's actual performance is eclipsing them is a testament to the seriousness and professionalism that our staff brought to reforming our disaster assistance program. Moreover, these reforms continue. On August 4, SBA introduced an electronic loan application, and while it was not available for the initial stages of the Midwest flood, it is currently in use and is capable of receiving 5,600 applications per hour.

The reforms and added capacity have allowed us to respond vigorously to the events in the Midwest. In financial terms, as of September 21, SBA has approved 7,145 loans for more than \$358 million. Of these approved loans, 6,262 are home loans totaling more than \$257 million; 855 are business loans for more than \$98 million; and 28 are Economic Injury Loans for \$ 2.4 million. More specifically, in Iowa, 3,446 loans have been approved for \$230 million. This includes 2,889 home loans for \$150 million; 541 business loans for \$78 million; and 16 EIDL loans for \$1.9 million.

The aggregate amount of loans is nearly double the \$112 million in loans approved following the 1993 Iowa floods, and all of these loan dollars are now hard at work helping the people of the affected areas rebuild.

SBA is responsible for providing affordable, timely, and accessible financial assistance following a disaster to businesses of all sizes, homeowners, and renters. Many disaster survivors have insurance, which covers part or all of the physical property losses due to a natural disaster, but for disaster losses not covered by insurance, an SBA loan is the primary form of federal financial assistance. This financial assistance is available in the form of low-interest loans, and since SBA's inception in 1953, it has provided 1.9 million loans for more than \$46 billion.

In addition to the financial assistance, SBA also provides direct technical assistance, outreach, and coordination with state and local officials. On June 24, SBA opened our Business Recovery Center in Cedar Rapids. Co-located with FEMA's Disaster Recovery Center, the center allows small businesses to work directly with our staff to learn about the available recovery resources and programs, receive counseling, and receive face-to-face answers to their questions. At our peak response, which occurred on June 30, SBA had 194 staff working from 67 centers in Iowa with coverage over 81 counties.

To make sure that citizens know about the help available to them, communication specialists from our Office of Disaster Assistance have been working actively with local media. They have provided more than 29 TV interviews, 34 radio interviews, and 62

newspaper interviews. Supplementing this media work, SBA officials have made more than 60 visits to Chambers of Commerce in the region to tell them about our programs.

On the coordination front, SBA participates in FEMA's Interagency Long Term Community Recovery task force, which is working with 10 of the hardest hit communities to provide hands-on technical assistance. Additionally, SBA is working with the Iowa Rural Development Council and the Rebuild Iowa Office to provide technical guidance to additional communities that were impacted by the floods. These efforts provide communities the opportunity to raise issues and connect with the local, state, federal, non-profit, and private sector resources that may be able to assist them.

Of course, this vigorous response is possible because of the focused effort to reform and improve our disaster response in the aftermath of the 2005 hurricane season. Because of their scale, Hurricanes Katrina, Rita, and Wilma presented significant challenges. The cumulative damage was so extensive that the number of resulting disaster loan applications overwhelmed SBA's capacity to process them.

Today, by incorporating lessons learned and process improvements, SBA's Disaster Assistance Program and our sister federal agencies have overhauled the processes and response protocols. SBA is better able to process loans and provide better quality service to disaster victims. As SBA responds following a disaster, these improvements are seen across the country, including the Midwest region.

SBA's Office of Disaster Assistance has incorporated these enhancements into the Agency's Disaster Response Plan. The DRP was created to become a comprehensive "playbook" to ensure a broad scope of coordination, awareness, and support throughout the Agency.

Now I would like to explain in more detail how these components function together in our DRP and describe the reforms we have undertaken to improve them.

Following a disaster, recovery loans are a critical. For individuals, loans of up to \$200,000 help those in the local community return and rebuild their homes. Moreover, businesses of all sizes are eligible for loans of up to \$2 million to repair or replace any uninsured and otherwise uncompensated physical damage losses sustained during a disaster.

In addition to loans to replace property, SBA's Office of Disaster Assistance also offers Economic Injury Disaster Loans (EIDL) to small businesses, small agricultural cooperatives, and most private non-profit organizations that have suffered economic injury caused by a disaster. If a small business or organization is unable to meet its ordinary and necessary operating expenses, an EIDL loan can help by providing working capital to a business or organization until normal operations can resume. The maximum EIDL loan amount is \$2 million combined for both physical and economic injury.

To administer these loans, we have revamped the post-approval procedures. To improve loan closings and fund disbursement, we created case management teams with staff from each key area, such as loan processing and legal. The emphasis is on customer

service and accountability, with each approved loan assigned to a team and an individual case manager.

Also on the administrative side, we have increased the Disaster Credit Management System's capacity from 2,000 to 12,000 concurrent users; expanded our workforce to include over 2,000 reservists along with enhanced training and quality assurance to ensure consistent adherence to policies and procedures; expanded infrastructure including 200,000 square feet of surge space and equipment; and better coordinated non-disaster field staff and improved harmonization across disaster center operations.

These programs and reforms directly support SBA's primary role in the overall federal response—providing disaster recovery loans. But, in addition to its disaster loans, SBA also helps small businesses recover from disasters through its guaranteed lending, technical assistance, and government contracting and business development programs.

In government contracting SBA coordinates with FEMA, the Army Corps of Engineers, and GSA to ensure that small businesses receive their share of federal reconstruction contracts. These efforts have paid off. After the Midwest Floods, small businesses received 77 contracts representing 34 percent of contract dollars awarded. The vast majority of those firms were from Iowa, Missouri and Illinois.

Under SBA's DRP, we leverage existing resource partners, namely, Small Business Development Centers, Women Business Centers, and SCORE. These partners help with local outreach as well as collaborate to distribute disaster recovery training materials and information to small businesses and non-profit organizations in the impacted areas. SBA and its resource partners have a longstanding reputation for providing management and technical assistance to businesses, and these resources are available to businesses recovering from a disaster. We strongly urge those in need to access these services by contacting their local SBA chapter.

Finally, I would like to describe SBA's progress in implementing the provisions of the 2008 Farm Bill that bear directly on our Disaster Assistance Program. A number of these provisions, in fact, were already in operation, and we welcomed the codifications or expansion of these reforms. Specifically, we are talking about the Disaster Response Plan, regular reports to Congress, and other reforms instituted by SBA and then codified through the Farm Bill. Here, I would like to highlight the position of Chief of the Executive Office of Disaster Strategic Planning and Operations, a position created during our reform efforts and codified under the Farm Bill.

In June 2008, Admiral Steve Smith (USN, Retired) was named Chief of the Executive Office of Disaster Strategic Planning and Operations (EODSPO), where he will continue to develop and implement institutional changes to SBA's disaster assistance program and be responsible for ensuring a high state of readiness.

For those provisions of the Farm Bill that augmented our ongoing efforts, SBA has been working to quickly and effectively implement these features as a part of our

overall Disaster Recovery capabilities. To date, the following program enhancements have already been implemented:

- Non-collateralized loan limits for physical disaster loans have increased to \$14,000 from \$10,000.
- Loan caps for businesses have increased to \$2 million from \$1.5 million.
- Use of Net Earnings Clause in the first 5 years of repayment has been prohibited.
- Non-profit organizations are now eligible for Economic Injury Disaster Loans.
- And as I mentioned earlier, the electronic loan application is now available.

In closing, I want to thank the Committee for the opportunity to testify today. As I mentioned earlier, I have visited the area three times in recent months, twice with you Mr. Chairman, seeing the damage first hand. I also had the distinct privilege of traveling to the region with Secretary of Commerce Carlos Gutierrez, and I participated in meetings, roundtables, and tours of the region with Iowa Governor Chet Culver, Cedar Rapids Mayor Kay Holloran, your colleague Congressman Dave Loebsack, and other state and local officials. My experiences give me a profound appreciation of the long-term consequences the floods will have, and I welcome the chance to answer your questions and describe how our recent reforms have dramatically improved our response. Thank you.